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Communist Economic Penetration of West

I. New Soviet Policy Tool.

A. West alerted to increasing Soviet competition in field of international trade and aid.

1. Khrushchev's former stress on "peace competition" (Will probably be increased under "Hard Line").

2. Soviet trade with underdeveloped countries of Free World up over 500 percent since 1954; total Soviet trade with West up over 100 percent.

II. Bi-weekly intelligence reporting on Soviet economic activities in Free World. Since February 1956, working group of representatives from State, CIA, ICA, the Services, and Departments of Treasury, Commerce, Agriculture report in detail every two weeks. Analytic summary every 6 months. Copies go to our consumers - Council on Foreign Economic Policy - "Randall".

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III. Soviet Capabilities for Trade and Aid formidable.

A. Total output (GNP) of USSR now greater than that of UK, France, and West Germany combined. Second only to US.

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B. However, USSR not traditionally a "trading nation" in Western sense. Present level of trade still small in relation to total output, although growing.

(Currency problem - Barter.)

Total 1957 USSR exports - \$4 billion (about 3/4 in Bloc).

Total 1957 US exports - \$18 billion.

(Of USSR to Free World, \$1 billion exports: \$700 million to developed, \$300 million to underdeveloped.)

IV. USSR credits and grant assistance.

A. Very sharp expansion recent years.

1. Since 1954, about \$2 billion credits and grants extended by all Bloc countries (Briefing Aid).

a. About \$1.5 billion economic assistance, \$500 million military.

b. Under these credits, drawings amount about \$700 million. However, we believe this figure substantially understates Bloc deliveries primarily because of gross understatement of value of arms shipments.

- (1) Represent deliveries of arms, complete plants, industrial equipment, such as:

Six bridges to Egypt; equipment steel mill, India; oil refinery, Syria; flour mill, Afghanistan.

- (2) Military hardware such as:

(a) Military planes, Indonesia, Egypt, Syria, etc.

(b) Tanks, self-propelled artillery, Syria, Egypt, Yemen.

(c) Submarines, small naval vessels, Egypt.

- (3) Some commodities:

(a) Wheat to Egypt; cotton, wheat, oil to Yugoslavia.

(b) Rice to Indonesia (from China) - during recent rebellion.

- (4) Small amount convertible currency:

(a) \$30 million to Yugoslavia from USSR - 1956

(b) China grant Egypt, early 1957, \$5 million in Swiss francs

V. Technicians - Trade Missions.

A. First 6 months 1958, about 3,600 Bloc technicians working Free World - half from USSR - half from Satellites (Briefing Aid).

B. Bloc sent trade missions all parts world - signed trade and payments agreements Free World countries - more than 250 now in force.

VI. Soviet aid principally to highly susceptible countries.

A. Result - 6 countries received over 90 percent of credits - Yugoslavia, Egypt, Syria, Afghanistan, India, Indonesia.

1. Soviet recently postponed for 5 years implementation of substantial credits Yugoslavia. Soviets, late June, stated willing to negotiate. Obvious move to establish more favorable setting during Nasser's visit with Tito. Even writing off these credits altogether, Yugoslavia remains a major recipient Bloc credits - about \$220 million. "Strings without aid."

VII. Soviets exploit particular problems of the moment.

A. India - exploited ambitious development program in steel - intense neutralist sentiment.

B. Egypt - helped dispose of cotton surplus problem; met desire for arms. Sudan (same appeal re cotton).

Soviets not neglecting Latin American countries with serious economic problems - industrial development aspirations, marketing difficulties:

1. Brazil concerned large coffee surpluses.
2. Chile falling copper prices, Uruguay - wool.
3. Uruguay and Argentina have turned to USSR for large purchases oil - lacked foreign exchange to buy from Free World - Brazil seriously negotiating for Soviet oil (prices slightly under world market).
4. Argentina reported considering \$300 million credit from USSR for purchase Soviet oil equipment and technical assistance.

VIII. Soviet competition with West not confined to underdeveloped countries - attempt to get grip on Western European markets and expand trade.

- A. Increasing sales of Soviet aluminum, tin, flax, woodpulp causing consternation among Western producers.
1. Market conditions in West for each of these are such that Western prices were high.
  2. Soviet agitation of these markets at present a by-product of their need to acquire foreign exchange.
  3. Soviets, however, probably pleased with by-product, and their ability to use trade as political weapon implies a threat to future stability of Western markets.

B. Prime reason for present increased activity in commodity markets is necessity for financing larger imports from industrialized West - Soviets attempting to make their economy more efficient, maintain rates of growth. Their gold production in 1957 about \$175 million, compared to shipments of about \$265 million to West. Soviets credited with \$4 billion in gold reserves.

1. Main problem facing Soviet economy today lies in supply of industrial raw materials - emphasis on chemicals industry represents a rational attempt to expand raw material base.

2. Fact that synthetics can be used to expand output consumer goods is relevant, but not most significant part of their program.

To expand chemical industry quickly, Soviets turning to industrial West - (wanted us to help their iron ore and synthetic industries).

Recent large orders placed for industrial equipment in West Germany, France, feelers to Sweden on \$350 million oil pipeline.

IN SUMMARY - Size of Soviet economy gives Kremlin formidable weapon for pushing world-wide aims. In underdeveloped areas, Soviet trade and aid program largely politically motivated. Concentrated in a few countries where it has already had important impact at little cost to Soviets. Difficult for West to compete using normal commercial practices. New challenge to our ingenuity.